

REPORT ON EXAMINATION

AS TO CONDITION

OF

CITIZENS UNITED RECIPROCAL EXCHANGE

PRINCETON, NEW JERSEY 08540

AS OF DECEMBER 31, 2008

NAIC GROUP CODE 000

NAIC COMPANY CODE 37028

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May 17, 2010

Honorable Thomas B. Considine
Commissioner of Banking and Insurance
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Commissioner;

Pursuant to the Revised Statutes of the State of New Jersey, an examination has been made of the condition and affairs of the:

CITIZENS UNITED RECIPROCAL EXCHANGE
PRINCETON, NEW JERSEY 08540
NAIC GROUP CODE 000
NAIC COMPANY CODE 37028

Hereinafter referred to as the Exchange or CURE.

SCOPE OF EXAMINATION

The financial condition examination was called by the Commissioner of Banking and Insurance pursuant to the authority granted by Section 17:50-8 of the New Jersey Revised Statutes.

The examination was conducted at the Exchange's main administrative office at 214 Carnegie Center, Suite 101, Princeton, New Jersey 08540.

The financial condition examination was made as of December 31, 2008 and addressed a three-year period from December 31, 2005. During this period the Exchange's admitted assets decreased by \$ 2,436, 930 from \$ 81,002,577 to \$78,565,647. Liabilities increased by \$ 492,768 from \$ 60,169,178 to \$ 60,661,946 and its surplus to policyholders decreased by \$ 2,929,698 from \$ 20,833,399 to \$ 17,903,701,

The conduct of the examination was governed by the procedures outlined in the NAIC Financial Examiners Handbook and followed accepted procedures of regulatory authorities and generally accepted insurance company examination standards.

In determining the emphasis to be placed on specific accounts, consideration was given to the Company's system of internal control, the nature and size of each account, its relative importance to solvency and the results of the analytical reviews performed within the New Jersey Department of Banking and Insurance and by the examination staff.

The material accounts specific to the Exchange are Loss and Loss Adjustment Expenses, Unearned Premiums, Uncollected Premiums, Investments, and Reinsurance. We have assessed the following emphasis level for these accounts:

Loss and Loss Adjustment Expenses	Medium
Unearned Premiums	Medium
Uncollected Premiums	Medium
Investments	Medium
Reinsurance	Medium

Many other accounts were determined to have lower emphasis level. These other areas reviewed during this examination included:

- History and Kind of Business
- Management and Control
- Territory and Plan of Operation
- Employees' Welfare and Pension Plans
- Fidelity Bond and Other Insurance Coverages
- Treatment of Policyholders

The control risk level will ultimately determine the amount of emphasis placed on each account. Based on our review of Exhibit B, discussions with the Department's EDP Consultant concerning the completion of Exhibit C by the Exchange, a review of the cycle questions and verification of Exchange responses to these questions on a test basis, the intended reliance on the Exchange's control environment has been determined to be low.

The examination report, contained herein, will address significant balance sheet accounts and, if necessary, comments on those accounts which involve departures from laws, regulations or rules, or which are deemed to require special explanation or description.

COMPLIANCE WITH PRIOR EXAMINATION FINDINGS

The examination noted that the Exchange provided responses regarding the prior report recommendations as of December 31, 2005. A summary of the recommendations, responses and 2008 examination findings are summarized below:

Policy on Conflict of Interest

2005 Examination Recommendation

It is recommended the Exchange executes the existing conflict of interest policy and requires all NJ CURE, RMC officers and responsible employee parties to complete the necessary questionnaires every year.

Exchange Response:

RMC, on behalf of the of the subscribers of NJCURE, accepts the Department's recommendation. During Calendar Year 2006, conflict of interest questionnaires were completed and presented to the Board of Directors of RMC. RMC's intention is to have the questionnaires completed annually.

2008 Examination Findings:

The Exchange has complied with the 2005 examination recommendation.

Accounts and Records

2005 Examination Recommendation

It was recommended by the prior examination that management assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion.

The Exchange has not complied with this recommendation and has not created a formal, compressive business continuity plan, including a disaster recovery plan. It is again recommended, as it was in the prior examination report, that management assess how the Exchange's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan, including a disaster recovery plan, that would help ensure the Exchange can adequately recover from a system failure or business

disruption in a timely fashion.

Exchange Response:

RMC, on behalf of NJCURE, accepts the Department's recommendation. The Exchange has initiated some informal steps required by a formal Business Continuity/ Disaster Recovery Plan. Progress towards this end has included the purchase of additional hardware the availability of offsite emergency work space, the existing usage of offsite storage for daily data files and the current usage of an offsite emergency claim center.

2008 Examination Findings:

The disaster recovery and continuity of operations plan was again reviewed. While the Exchange has made strides in both these plans, it is again recommended that the Exchange continue to make progress in the finalization of these plans.

Taxes, Licenses and Fees

2005 Examination Recommendation

It was determined by this examination that the Exchange made settlements of the Motor Vehicle Responsibility Law assessments for the period between 2002 and 2006. However, as discussed in the previous examination, the Exchange still had not paid its share of the assessments for the years 1997 through 2001.

It is again recommended that in the future the Exchange pay their portion of the New Jersey Motor Vehicle Responsibility Law Assessments annually.

Exchange Response:

NJ CURE was contacted by the New Jersey Department of Banking and Insurance, Division of Anti-Fraud Compliance, concerning outstanding assessments. The outstanding assessments in question pertained only to assessment years 2002 through 2005. In August of 2006, NJ CURE satisfied requested outstanding assessments.

2008 Examination Findings:

The Exchange complied with the 2005 examination recommendation.

Amounts Withheld or Retained by Company for Account of Others

2005 Examination Findings:

It is recommended that the Exchange issue a check made payable to the order of the New Jersey

Department of Banking and Insurance and transmit the payment to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

Exchange Response:

The amount of RMEC and policy constants held in an escrow account was originally paid in by NJCURE subscribers. Most of the NJCURE subscribers in 1992 were depopulated from the JUA. These dollars were paid in as part of an overall insurance plan to make auto insurance available to all New Jersey drivers.

Given that JUA no longer exists and NJCURE is a not-for-profit insurance alternative for all New Jersey drivers who qualify and choose to help themselves by joining the Exchange to insure each other and that among them were the original payers of these funds, RMC respectfully requests permission to release this amount as part of NJCURE policyholder's surplus. To do so will benefit all subscribers of NJCURE and will help strengthen the financial condition of a not-for-profit, self-help insurance program which is helping to stabilize the current auto insurance market.

RMC believes that by requiring NJCURE to pay this fund into the general New Jersey Escheatable Fund Division would be inconsistent with the statutes and regulations governing the operations of New Jersey Escheatable Fund Division. Further, we believe that such a requirement would be inconsistent with the original purpose for funds collected.

2008 Examination Findings:

It again will be recommended that the Exchange issue a check made payable to the order of the New Jersey Department of Banking and Insurance and transmit the payment to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

Payable to Parent, Subsidiaries and Affiliates

2005 Examination Findings:

At December 31, 2005, the Exchange reported a liability for Payable to Parent, Subsidiaries and Affiliates of \$ 944,221, which was \$ 95,976 less than the amount determined by this examination of \$1,040,198.

Although the Exchange subsequently corrected this in 2006, it is still recommended the Exchange continue to separate the receivables and payables to the asset "Receivable from Parent, Subsidiaries and Affiliates and "Payable to Parent, Subsidiaries and Affiliates" or as an alternative, amend the Expense Agreements with RMC and NJPURE to give NJCURE the right to offset.

Exchange Response:

RMC, on behalf of NJCURE, accepts the Department's recommendation. The 2006 Annual Statement for NJCURE reported separate values for affiliated receivables and payables. It is the intention of the Exchange to report separate values hereafter.

2008 Examination Findings:

The Exchange complied with the 2005 examination recommendations.

HISTORY

The New Jersey Citizens United Reciprocal Exchange (NJ CURE) was organized pursuant to N.J.S.A. 17:50-1 by the Reciprocal Management Corporation (hereinafter referred to as RMC) as a reciprocal inter-insurance exchange. In accordance with the Exchange's Plan of Operation, RMC was organized under N.J.S.A. 14A:1 as a New Jersey Corporation on June 20, 1989. The Certificate of Incorporation was duly filed and recorded by the Secretary of State on July 7, 1989.

On August 7, 1989, pursuant to N.J.S.A. 17:50-10, RMC filed a letter with the New Jersey Commissioner of Insurance for permission to solicit Power of Attorney and applications to begin solicitation, contingent upon certain conditions on the organization and Plan of Operation of the Exchange.

On February 23, 1990 pursuant to N.J.S.A. 17:50-3 RMC, as the Attorney-In-Fact for the Exchange, filed a "Declaration" as required by statute with the New Jersey Department of Insurance. Concurrent with the filing of the Declaration, an instrument authorizing service of process was filed with the Commissioner of Insurance of the State of New Jersey.

Authority was granted to the Exchange on March 29, 1990 to issue personal automobile inter-insurance contracts under the name of NJ CURE. The Exchange was issued a Certificate of Authority dated April 27, 1990 by the State of New Jersey and commenced operations on June 1, 1990 to exchange the following kinds of insurance:

"Against loss or damage resulting from accident to or injury suffered by any person which loss or damage the insured is liable, including if the insured is a state or a political subdivision of a State or a municipal corporate, instrumentality of 1 or more States, loss or damage the insured would be liable if it were a private corporation."

The Exchange is required to renew its Certificate of Authority by May 1st of each year pursuant to N.J.S.A. 17:50-11. The Certificate entitles the Exchange to engage in the kinds of insurance specified in paragraphs "b" and "e" of N.J.S.A. 17:17-1. Authority granted under paragraph "e" to write worker's compensation and employer's liability insurance is specifically excluded.

On February 22, 1990 RMC contributed an initial surplus amount of \$750,000 in the form of a subordinated surplus note payable to RMC. In addition, the Exchange's initial capitalization was partially provided by all new subscribers who are required to pay an initial deposit of 20% of their annual premium for the first two years of membership in the Exchange. On December 31, 1993 additional amounts of \$391,164 and \$128,836 were contributed to the Exchange by RMC in the form of subordinated surplus notes.

On September 30, 1997, RMC subordinated \$581,899 as a surplus note to NJ CURE. These surplus notes were in the amount of \$281,899 and \$300,000. Additionally, effective September 30, 1997, RMC, acting in its capacity as the Attorney-in-fact for the subscribers of NJ CURE, entered

into an Adverse Loss Development Reinsurance Agreement with its reinsurer, Inter-Ocean Reinsurance Company, LTD. Pursuant to the terms of this agreement, NJ CURE ceded to Inter-Ocean Re all loss and loss adjustment expenses as of September 30, 1997 relating to NJ CURE's private passenger automobile book of business for accident years 1990 through 1997.

On April 1, 2002, RMC entered into a commutation and release with Inter-Ocean Re, which effectively terminated this agreement. Inter-Ocean Re in turn returned to NJ CURE all remaining funds in the experience account in exchange for being fully released from any future obligations under this reinsurance agreement.

On November 24, 2003, the Company was directed to formally request ending administrative supervision, produce a plan to "take all comers" effective February 2004 and a specific timetable to eliminate all future subscriber surplus contributions. Effective August 1, 2006, the exchange was removed from confidential administrative supervision as per Confidential Order No. A06-115. Additionally, per Confidential Order No. A06-116, the suspensions of the obligations of NJ CURE to write all eligible persons and to accept assignments from PAIP was revoked.

Effective August 30, 2007, the Company changed its name from New Jersey Citizens United Reciprocal Exchange (NJCURE) to Citizens United Reciprocal Exchange (CURE). The change was due to the expansion into Pennsylvania.

The principal office of the Exchange is located at 214 Carnegie Center, Suite 101, Princeton, New Jersey. RMC serves as Attorney-In-Fact for the Exchange, and acts as its registered agent and general manager with the responsibility for the administration and management of its daily operations.

TERRITORY AND PLAN OF OPERATION

The Exchange, formerly NJ CURE, changed its name to Citizens United Reciprocal Exchange (CURE) on August 1, 2007. On August 21, 2007, the commonwealth of Pennsylvania issued CURE a Certificate of Authority (CA) to write automobile insurance. The current Pennsylvania CA is effective for the period April 1, 2008 through March 31, 2009. The first policy was written in Pennsylvania in November 2008.

The Exchange was authorized to transact business under N.J.S.A. 17:50-1.

As indicated in the Power of Attorney that is discussed further under the heading "Affiliated Companies Agreements", RMC acting as Attorney-In-Fact for each individual subscriber, is responsible for the administration and management of the Exchange.

Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber's total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers. Return of surplus contributions can occur only after withdrawal from the Exchange and only with the approval of the Attorney-in-Fact and the Commissioner of Banking and Insurance. In any event, such return can not be authorized

prior to the satisfaction of the surplus requirements of the Exchange valued at the next following year-end valuation of assets and reserves.

Under the direction of the Exchange's marketing director, CURE implemented certain key marketing initiatives for the purpose of attracting new subscribers. A Marketing Plan was submitted by the Exchange, which included issues such as the continued marketing of the CURE auto insurance program using radio, telephone book and highway billboard advertising. The Exchange also established a CURE Internet site to provide information about CURE and to facilitate the receipt of insurance premium quote requests from prospective subscribers. Marketing also sees the promotion of CURE's auto insurance program using the "New Jersey On-line" and other internet sites via electronic promotional banners or direct links that provide direct and immediate connectivity to the CURE Internet site, allowing subscribers to submit premium quote requests. Lastly, the Exchange will use targeted direct mail advertising to generate contact with potential subscribers.

The Exchange participates in various service agreements. Among these agreements is an Investment Supervisory Agreement with Byrne Management LLC of Princeton, NJ. Additionally, the Exchange also partakes in a 214 Carnegie Center Building Lease Agreement with RMC which was established on July 24, 2003. Furthermore, the Exchange also has agreements with Strategic Data Systems (SDS) and Qwest Communications Corporation for computer software processing and phone communications respectively.

Claims administration and management is performed by RMC/CURE personnel from its claims office located at 214 Carnegie Center in Princeton, New Jersey. The claims department is responsible for duties such as coverage analysis, communication, and investigation evaluation disposition and reserving.

Direct written premiums over that period were as follows:

2006	\$ 43,782,131
2007	43,850,799
2008	42,069,181

Direct premiums written in 2008 were in the following lines:

Private passenger auto liability	\$ 26,806,044
Private auto physical damage	15,263,137
	<u>\$ 42,069,181</u>

Generation of business is produced using a direct marketing approach. CURE has no agents or brokers. As of 2008, 99.91% of all direct written business was written in New Jersey.

GROWTH OF THE EXCHANGE

The following exhibit shows the results of the Exchange's operations during the current three-year examination period:

<u>Year</u>	<u>Direct Premiums Written</u>	<u>Net Premium Earned</u>	<u>Net Underwriting Net Gain/(Loss)</u>	<u>Net Investment Net Gain/(Loss)</u>	<u>Net Admitted Assets</u>	<u>Surplus As Regards Policyholders</u>
2006	43,782,131	40,670,044	(8,738,198)	2,602,321	80,920,012	21,082,868
2007	43,850,799	41,006,957	(12,058,735)	2,879,420	83,297,537	19,592,472
2008	42,068,181	41,591,185	(5,496,144)	1,497,019	78,565,647	17,903,701

REINSURANCE AND RETENTION

The Exchange had external reinsurance agreements in force as of December 31, 2008. The various agreements in effect, the coverage provided and the maximum limits of reinsurance are summarized as follows:

Casualty Excess of Loss Reinsurance Agreement

<u>Layer</u>	<u>Retention</u>	<u>Reinsurers Limits of Liability</u>
	Ultimate Net Loss in respect of each Loss Occurrence	Ultimate Net Loss in respect of each Loss Occurrence
ALAE - Only	\$ 25,000	80% of \$ 475,000
First Excess	\$ 150,000	\$ 350,000
Second Excess	\$ 500,000	\$ 500,000

Property Catastrophe Excess of Loss Reinsurance Agreement

<u>Layer</u>	<u>Retention</u>	<u>Reinsurers Limits of Liability</u>
	Ultimate Net Loss in respect of each and every Loss Occurrence	Ultimate Net Loss in respect of each and every Loss Occurrence
First Excess	\$ 500,000	95% of \$ 1,500,000
Second Excess	\$ 2,000,000	95% of \$ 3,000,000

Quota Share Reinsurance Agreement

The agreement is with Motors Insurance Corporation and is related to private passenger automobile policies. This became effective December 31, 2008. CURE will cede a 15% of all net losses and ALAE to the reinsurer. CURE will be responsible for all net loss otherwise recoverable from the reinsurer that exceed 55% of the net earned premium ceded but not less than or equal to 81% of the net

earned premium ceded. Additionally, pursuant to the terms of the agreement, CURE will cede 15% of its net earned premiums with respect to policies in-force at the inception of the agreement and policies written or renewed on or after the inception date.

Auto Liability Excess of Loss Reinsurance Agreement

The Agreement covered auto liability reinsurance coverage for 1995 and prior accident years. The Agreement was terminated on January 1, 1996 by mutual consent of both parties, with National Re. not being liable for any losses occurring after December 31, 1996. As of the examination date, the Exchange is still running off losses on this Agreement.

Unsatisfied Claim & Judgment Fund

As a writer of automobile insurance in the State of New Jersey, the Exchange participates in the following mandatory pools: New Jersey Unsatisfied Claim and Judgment Fund (NJUCJF) and New Jersey Automobile Insurance Risk Exchange (NJAIRE).

On June 9, 2003, in accordance with Order No. A03-136, the New Jersey Property-Liability Insurance Guaranty Association (PLIGA) is to assume responsibility for all management, administrative and claims functions of the Unsatisfied Claim and Judgment Fund (UCJF). The Commissioner of Insurance will provide for an orderly transition of the operations, functions, powers and duties of the UCJF. On September 15, 2003, in accordance with Order No. A03-151, the continued directive on the orderly transition stated that all insurers will process new PIP Claims through December 31, 2003. All systems, assessments and claim functions of the UCJF will be administered by PLIGA; and all claims files of UCJF shall begin to be transferred to PLIGA. UCJF claims prior to June 9, 2003 are in run off and will continue to be recorded in Schedule F.

INTER-COMPANY AGREEMENTS

The Company is a party to various inter-company agreements in effect at December 31, 2008. These agreements include the following:

Power of Attorney

Pursuant to the common form of power of attorney as executed by each subscriber of the Exchange, Reciprocal Management Corporation (RMC), as Attorney-In-Fact, is responsible to provide senior management for the various functions necessary to effect the exchange of reciprocal inter-insurance contracts between subscribers and to manage the affairs of the Exchange as set forth in the power(s) of attorney. These management functions include, but are not limited to, marketing, policy administration, premium deposit collection, accounting and financial management, information systems support, claims management and reinsurance arrangements. Pursuant to the approved power of attorney, Attorney-In-Fact fees charged by RMC to CURE are based upon a percentage of CURE's gross written premiums deposits. This percentage is not to exceed 12.5% of total annual written premiums on each policy.

The subscribers of CURE are paying an additional 1 % of their annual premium deposits for the first four years with CURE to repay RMC for organization charges incurred in connection with

the establishment of the Exchange to transact business in the State of New Jersey. Commencing in September 2006, the outstanding organization fees payable were satisfied, and pursuant to the aforementioned power of attorney, organization fees collected thereafter were included in surplus contributions for the benefit of all subscribers.

Lease Agreement

The Lease Agreement was originally effective July 1, 1993 for a period of five years. The agreement was between RMC, Attorney-in-Fact for the subscribers of NJ CURE, and LLB Realty, LLC (LLB) and was renewed for two successive five year periods, expiring on June 30, 2003. This lease agreement at 13 Roszel Rd. has been amended several times since its inception, with three amendments occurring since the last examination as of December 31, 2005. Beginning July 1, 2003, NJ CURE continued to rent this office facility on a month-to-month basis with the expectation of moving its entire offices to the new building facility at 214 Carnegie Center, Princeton, New Jersey. The Exchange successfully completed its move to the new office in September 2004. The Exchange continues to utilize the space rented from LLB Realty at 13 Roszel Rd. for storage and is anticipating additional usage as a disaster recovery site. Effective March 30, 2004, the sixth amendment extends the lease expiration by two years, through December 31, 2006. Effective October 1, 2005, the seventh amendment decreased the square footage to 10,336, with all other lease conditions remaining in effect. In consideration therewith, RMC is required to pay a fixed guaranteed minimum annual rent of \$168,786 per annum, payable in equal monthly installments of \$14,065.57 and additional charges including utilities, escalation and maintenance costs related to the leased premises.

On July 24, 2003, Reciprocal Management Corporation, as the attorney-in-fact for the subscribers of NJ CURE, entered into an 11 (eleven) year building lease with Carnegie 214 Associates, LLP (landlord), to provide office facilities to conduct the business of the Exchange.

Pursuant to the terms of the lease agreement, NJ CURE was required to provide the landlord an irrevocable letter of credit in the amount of \$573,662 as a security deposit for the rental of this facility. CURE's estimated future minimum lease payments related to these leasing arrangements, between 2009 and 2013, are \$6,853,185.

Expense Agreements

Effective December of 2001, the Exchange entered into an Expense Agreement between the Reciprocal Management Corporation (RMC), a New Jersey business corporation and Reciprocal Management Corporation, as the Attorney-in-fact for the subscribers of the New Jersey Citizens United Reciprocal Exchange (NJ CURE). RMC shared common facilities and certain administrative and operating expenses with NJ CURE. These expenses principally included salaries, employee benefits, rent, utilities and office supplies. Such expenses were allocated among these entities based upon estimates of the time devoted to company activities, NAIC promulgated accounting practices and other allocation methods deemed reasonable and appropriate by management and pursuant to the terms of an expense agreement.

Effective December 19, 2002, the Exchange entered into an Expense Agreement between Reciprocal Management Corporation, as the Attorney-in-fact for the subscribers of NJ CURE and Reciprocal Attorney-In-Fact, as the Attorney-in-fact for the subscribers of New Jersey Physicians United Reciprocal Exchange (NJ PURE). The associated entities entered into this expense agreement for the purposes of experiencing the benefits of sharing office and related expenses and receiving the benefits of the economies of scale.

MANAGEMENT AND CONTROL

Reciprocal Management Corporation (RMC) is the Citizens United Reciprocal Exchange (CURE)'s duly appointed Attorney-In-Fact. As such, pursuant to N.J.S.A. 17-50-1 et. seq., RMC manages and directs the daily operations of the Exchange on behalf of the subscribers of the Exchange.

CURE is a reciprocal interinsurance exchange organized under N.J.S.A. 17:50-1 et seq. As a reciprocal interinsurance exchange, CURE is not a corporation and does not have a board of directors or a subcommittee, shareholders, by-laws and/or articles of incorporation.

The officers of Reciprocal Management Corporation (RMC) for the Exchange serving at December 31, 2008 were as follows:

<u>Name</u>	<u>Principal Occupation</u>
Lena Chang	President
Eric Poe	Secretary
Steven P. Kerner, Jr.	Chief Financial Officer

The by-laws of RMC require the Board to conduct an annual meeting of Directors and Shareholders, on the second Tuesday in April. Attendance of the RMC Directors at the Board meetings, held during the three-year examination period under review was 100%.

At the April 6, 2006 Board Meeting of RMC, approval was given for the formulation of an Audit Committee. The Audit Committee will be comprised of two committee members with one outside Director. The Committee is expected to meet at least once per year with requisite minutes prepared and retained. The Committee's main responsibility will be to appoint and review the independent audit report.

CORPORATE RECORDS

Citizens United Reciprocal Exchange (CURE) is a reciprocal exchange transacting business through Reciprocal Management Corporation (RMC), an Attorney-In-Fact, Inc is not a corporation and has no shareholders, also is a "not-for-profit" direct writer of private passenger auto liability and auto physical damage insurance in New Jersey and Pennsylvania. RMC directs and manages the affairs of the Exchange.

The Exchange's By-laws and Certificate of Incorporation were not changed since the inception. The annual meeting of the shareholders will be held not less than ten nor more than sixty days written notice of the time, place and purposes of the meeting. The meeting shall be held at the time and at the place, either within or outside State of New Jersey as determined by the Board. Special meetings of Shareholders may be called for any purpose by the "Present" or the Board. Special meetings of

Board of Directors may be called for any purpose by the President or by a majority of the members of the Board of Directors.

The Board shall consist of two members or such greater number that the shareholders or Board may decide upon from time to time. Director shall be elected by the shareholders at each annual meeting and shall hold office until the next annual meeting of shareholders and until their successors shall have been elected and qualified. The presence at a meeting of persons entitled to cast a majority of the votes of the entire Board shall constitute a quorum for the transaction of business.

The minutes of the Board of Directors meetings of RMC, the controlling entity for the Exchange, were reviewed during the period of examination and found to be in accordance with the By-laws. The Board minutes also indicated that the Exchange's overall transactions and events were adequately supported and approved.

POLICY ON CONFLICT OF INTEREST

The Exchange, through its Attorney-In-Fact, Reciprocal Management Corporation (RMC) has adopted and established a procedure for conflict of interest disclosures by the officers and responsible employees of RMC, the Attorney-In-Fact for the subscribers of CURE. The policy states that all officers and responsible employees are required to expeditiously report any possible conflict of interest to the Board of Directors of RMC. No conflicts were reported during the examination period.

FIDELITY BOND AND OTHER INSURANCE COVERAGES

The Exchange maintains an insurance program designed to protect its assets from losses arising out of various risks. The following is a list of insurance coverages and limits maintained by CURE as of December 31, 2008:

Coverage	Limits
Commercial Automobile	Liability \$1,000,000 Medical Payments \$1,000,000 Uninsured Motorist \$1,000,000
Commercial Property	Business Personal Property \$1,111,200 - \$1,000 Deductible Computer & Media \$850,000 On Premises Money & Securities \$10,000 Off Premises Money & Securities \$5,000 Fungi Coverage \$50,000
Commercial General Liability	General Aggregate \$2,000,000 Liability & Medical Expenses \$1,000,000 Products & Completed Ops \$2,000,000 Personal and Advertising Injury \$1,000,000 Each Occurrence \$1,000,000 Damages Premises Rented by Insured \$300,000

Medical Expense (Any One Person) \$10,000
Coverage Written on Occurrence Basis
Employee Benefits Liability \$1,000,000

**Accounts Receivable/Valuable
Papers**

Premises \$250,000
Employee Dishonesty \$250,000
Forgery \$100,000
Hazardous Substances \$25,000
CFC Refrigerants \$25,000

**Excess Liability
Umbrella Coverages**

Excess Liability Coverage Liability \$5,000,000
Annual Aggregate \$3,000,000
Retained Limit \$10,000

Workers Compensation is provided to statutory limits. Employers liability coverage is for bodily injury by accident to \$1,000,000 each accident and bodily injury by disease \$1,000,000 per employee and \$1,000,000 policy limit.

At December 31, 2008, the Exchange maintained fidelity bond coverage with an aggregate limit of \$700,000 and a \$25,000 deductible. The coverage is adequate and in accordance with the NAIC's suggested minimum requirements.

EMPLOYEE'S WELFARE AND PENSION PLANS

CURE provides several benefit programs for its employees. A general summary of the various plans available to the Company employees are as follows:

- 401(K) Saving Plan
- Medical Program (PPO & POS)
- Dental Benefits Program (Delta Dental PPO)
- Vision Care Plan
- Group Life Insurance / Accidental Death & Dismemberment
- Long Term Disability Insurance; COBRA
- Flexible Benefits Plan (for Medical & Dependent Care Reimbursement)
- Wellness Discounts
- Family Medical Leave Act

POLICY FORMS AND UNDERWRITING PRACTICES

The Company filed its own forms and rates filings with the Department for its private passenger automobile line of business. All rates and form filings have been determined to be complete and in accordance with N.J.A.C. 11:3-16.5.

The Company filed its own underwriting guidelines with the Department for its private passenger automobile line of business. All filings have been reviewed and approved by the Department of Banking and Insurance as required by N.J.A.C. 11:3-35.1.

ACCOUNTS AND RECORDS

All material accounting books and records are maintained at the Exchange's main administrative office located at 214 Carnegie Center, Suite 101, Princeton, New Jersey. Work papers prepared by the Exchange's independent accounting firm, Amper, Politziner & Mattia, were reviewed, tested and incorporated into this examination where feasible. Financial information needed in conjunction with the verification of assets and the determination of liabilities was made available in detail and summary form.

CURE uses a Sage Software program called ACCPAC to maintain the general ledger. Monthly standard journal entries are prepared to record premium, losses paid, case loss reserves, investment activity, cash / bank activity, payroll disbursements and accruals. Standard journal entries are also prepared on a quarterly basis to record inter-company payroll allocations, ceded premium, reinsurance recoverable, depreciation expense and IBNR reserves.

In addition to the general ledger module CURE also uses an accounts payable module in ACCPAC to record all general operating expense disbursements. Invoices and operating disbursements are recorded in the accounts payable module and when they are posted a journal entry is automatically sent to the general ledger module CURE currently uses ADP to process payroll on a biweekly basis. ADP provides a general ledger journal entry with each payroll which is manually keyed into the general ledger system.

Premium receipts are generally received via lockbox payments or Western Union Speedpay payments. Western Union Speedpay allows subscribers to pay via credit card or ACH from a checking or savings account. Other receipts will be received by the receptionist at CURE during normal business hours. Lockbox receipts at the bank are coded by TD Bank and reported to CURE electronically which is automatically uploaded on a daily basis into the PCA System every afternoon. A daily cash deposit report, detailing all policyholder payments, is forwarded to CURE by TD Bank, which is in turn reconciled to the PCA System's daily cash receipts register. Western Union Speedpay payments are also reported to CURE electronically and uploaded daily into the PCA System. Cash deposit reports can be run from the Western Union Speedpay website.

When a claim is initiated, the claims representative will print out the coverage screens from the SDS system, which is used to determine if the claim is covered and date of loss is within the policy term. If the claim is covered, the claims representative will proceed with processing the claim, taking into account any deductibles or co-pays. Reserve changes and payment authorities are coded into the system. Changes to the levels of authority are sent in writing to the Chief Information Officer, Teemu Korpjaakkoto record the transaction.

All claim disbursements for Exchange will only have the signatures of Dr. Chang, President, Eric Poe, Secretary, Les Yesner, Chief Financial Officer, Debra Mueller, Controller or Nancy Waddle, Assistant VP-Operations.

During previous examinations, it was recommended by the examination that management assess how the Company's reputation and financial status would be impacted in the event of a major processing disruption and, based on this assessment, develop an appropriate continuity plan that would help to ensure the Company can adequately recover from a system failure or business disruption in a timely fashion. It had been recommended that the Exchange develop an appropriate continuity plan, including a disaster recovery plan, that would help ensure the Exchange can adequately recover from a system failure or business disruption in a timely fashion. Upon review, it was determined that the Exchange has initiated some informal steps required by a formal Business Continuity/ Disaster Recovery Plan. Progress towards this end has included the purchase of additional hardware the availability of offsite emergency work space, the existing usage of offsite storage for daily data files and the current usage of an offsite emergency claim center. While the Exchange has made strides in both these plans, it is again recommended that the Exchange continue to make progress in the finalization of these plans.

TREATMENT OF POLICYHOLDERS AND CLAIMANTS

The Exchange's complaint handling procedures as well as its complaint logs were reviewed during the period of examination.

Upon review of the Exchange's complaint file, it was determined that the Exchange was in compliance with N.J.S.A. 17:29B-4(10) which states: "This record shall indicate the total number of complaints, their classification by line of business, the nature of each complaint, the disposition of these complaints and the time it took to process each complaint." Additionally, the Exchange maintains two separate complaint logs, which include a log of complaints from the New Jersey Department of Banking and Insurance and a log of complaints made directly to the Company.

ADVERTISING

A review of the Exchange's advertising and sales materials disclosed that the Exchange is in compliance with N.J.S.A. 17:18-10 and that there were no material inconsistencies between the Exchange's sales material and the Exchange's policies.

FINANCIAL STATEMENTS AND OTHER EXHIBITS

<u>Exhibit A</u>	Balance Sheet of December 31, 2008 and December 31, 2005
<u>Exhibit B</u>	Underwriting and Investment Exhibit for the Three-Year Period Ended December 31, 2008
<u>Exhibit C</u>	Capital and Surplus Account for the Three-Year Period Ended December 31, 2008

NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
BALANCE SHEET AT DECEMBER 31, 2005 AND DECEMBER 31, 2008

	Balance per Examination at 12/31/08	Balance per Company at 12/31/08	Examination Change	Note Number	Balance per Company at 12/31/05
<u>Assets</u>					
Bonds	\$51,828,654	\$51,828,654		1	\$61,711,401
Preferred Stocks	21,980	21,980		1	89,220
Common Stocks	5,471,128	5,471,128		1	390,328
Cash and Short-Term Investments	5,841,058	5,841,058			2,311,656
Investment Income Due and Accrued	616,850	616,850			503,452
Agents' Balances or Uncollected Premiums:					
Uncollected Premiums and Agents' Balances In Course of Collection	3,308,543	3,308,543			3,301,583
Installments Booked But Deferred and Not Yet Due	10,012,597	10,012,597			10,231,247
Amounts Recoverable From Reinsurers	265,687	265,687			0
Other Amounts Receivable Under Reinsurance Contracts	609,205	609,205			880,636
Current Federal and Foreign Tax receivable	0	0			591,643
Net Deferred Tax Asset	0	0			892,310
Guaranty Funds on deposit	305,465	305,465			99,101
Electronic Data Processing Equipment	34,922	34,922			0
Receivable from Parent, Subsidiaries and Affiliates	249,558	249,558			0
Total Admitted Assets	\$78,565,647	\$78,565,647			\$81,002,577
<u>Liabilities</u>					
Losses	\$26,304,420	\$26,304,420		2	\$23,757,343
Loss Adjustment Expenses	10,800,599	10,800,599		2	\$10,674,461
Other Expenses	1,270,638	1,270,638			1,326,013
Taxes, Licenses and Fees	249,388	249,388			191,897
Unearned Premiums	17,046,787	17,046,787			22,041,941
Advance Premiums	193,868	193,868			305,733
Ceded Reinsurance Premiums Payable	2,123,472	2,123,472			230,000
Amounts Withheld or Retained by Company for Account of Others	492,546	492,546		3	407,226
Remittances and Items Not Allocated	46,853	46,853			47,010
Payable to Parent, Subsidiaries and Affiliates	397,630	397,630			944,221
Payable for Securities	1,735,745	1,735,745			243,333
Total Liabilities	\$60,661,946	\$60,661,946			\$60,169,178
<u>Surplus and Other Funds</u>					
Aggregate Write-Ins for Special Surplus Funds	\$0	\$0		4	\$466,306
Aggregate Write-Ins for Other Than Special Surplus Funds	46,375,367	46,375,367		4	\$32,579,414
Surplus Notes	2,418,898	2,418,898		4	2,418,898
Unassigned Funds (Surplus)	(30,890,564)	(30,890,564)		4	(14,631,219)
Surplus as Regards Policyholders	\$17,903,701	\$17,903,701			20,833,399
Total Liabilities, Surplus and Other Funds	\$78,565,647	\$78,565,647			\$81,002,577

EXHIBIT B

**NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
SUMMARY OF OPERATIONS FOR THE
THREE YEAR PERIOD ENDING DECEMBER 31, 2008**

<u>UNDERWRITING INCOME</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Premiums Earned	\$41,591,185	\$41,006,957	\$40,670,044
Deductions:			
Losses Incurred	24,765,883	25,981,119	24,075,985
Loss Expenses Incurred	8,409,815	11,902,222	10,530,184
Other Underwriting Expenses Incurred	<u>13,911,631</u>	<u>15,182,351</u>	<u>14,802,073</u>
Total Deductions	\$47,087,329	\$53,065,692	\$49,408,242
Net Underwriting gain or (Loss)	<u>(\$5,496,144)</u>	<u>(\$12,058,735)</u>	<u>(\$8,738,198)</u>
<u>INVESTMENT INCOME</u>			
Net Investment Income Earned	\$2,527,785	\$2,661,752	\$2,598,862
Net Realized Capital Gains or (-) Losses	<u>(1,030,766)</u>	<u>217,668</u>	<u>3,459</u>
Net Investment Gain	<u>\$1,497,019</u>	<u>\$2,879,420</u>	<u>\$2,602,321</u>
<u>OTHER INCOME</u>			
Net Gain or Loss (-) From Agents' Balances			
Charged Off	(\$40,108)	(\$156,584)	(\$255,771)
Finance or Service Charge not Included in Premium	1,565,572	1,269,200	1,286,105
Aggregate Write-ins for Miscellaneous Income	<u></u>	<u></u>	<u></u>
Total Other Income	<u>\$1,525,464</u>	<u>\$1,112,616</u>	<u>\$1,030,334</u>
Net Income Before Dividends To Policyholders and Before Federal and Foreign Income Taxes	(\$2,473,661)	(\$8,066,699)	(\$5,105,543)
Dividends To Policyholders	<u>0</u>	<u>0</u>	<u>0</u>
Net Income Before Federal Income Taxes	(\$2,473,661)	(\$8,066,699)	(\$5,105,543)
Federal and Foreign Income Taxes Incurred	<u>0</u>	<u>0</u>	<u>0</u>
Net Income	<u>(\$2,473,661)</u>	<u>(\$8,066,699)</u>	<u>(\$5,105,543)</u>

EXHIBIT C

**NEW JERSEY CITIZENS UNITED RECIPROCAL EXCHANGE
CAPITAL AND SURPLUS ACCOUNT FOR
THREE YEAR PERIOD ENDING DECEMBER 31, 2008**

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Net Income	(\$2,473,661)	(\$8,066,699)	(\$5,105,543)
 <u>OTHER SURPLUS GAINS OR (-) LOSSES</u>			
Change In Net Unrealized Capital Gains or (-) Losses	(\$3,858,652)	\$61,225	\$224,067
Change in Net Deferred Income Tax	(379,985)	4,959	(82,444)
Change in Non Admitted Assets	455,996	328,103	235,424
Change in Provision for Reinsurance			
Aggregate Write-ins for Gains and Losses in Surplus	4,567,531	6,182,016	4,977,965
Change in Surplus Notes			
Total Other Surplus Gains or (-) Losses	<u>\$784,890</u>	<u>\$6,576,303</u>	<u>\$5,355,012</u>
 Increase or (-) Decrease as Regards			
Policyholders	(\$1,688,771)	(\$1,490,396)	\$249,469
 Surplus as Regards Policyholders			
December 31, Previous Year	<u>\$19,592,472</u>	<u>\$21,082,868</u>	<u>\$20,833,399</u>
 Surplus as Regards Policyholders			
December 31, Current Year	<u><u>\$17,903,701</u></u>	<u><u>\$19,592,472</u></u>	<u><u>\$21,082,868</u></u>

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - BONDS AND STOCKS

At December 31, 2008 the Exchange reported assets for bonds of \$ 51,828,654, preferred stocks of \$ 21,980 and common stocks of \$ 5,471,128. The assets were accepted as stated.

Statutory Deposits:

At December 31, 2008 the Exchange held a U.S. Treasury Bond of \$100,000 with the Commissioner of Banking and Insurance of the State of New Jersey in trust for the benefit and security of the policyholders of the CURE. The certificate was held at TD Bank as required by the State of New Jersey.

NOTE 2 : LOSS AND LOSS ADJUSTMENT EXPENSE RESERVES

At December 31, 2008 the Company reported a net liability for Losses and Loss Adjustment Expenses of \$ 37,105,019.

A review of the reserves for losses and loss adjustment expenses was completed by the Property and Casualty Actuarial Division of the New Jersey Department of Banking and Insurance. On the basis of this review, it was determined that the Exchange's reserves were reasonable and the balances be accepted as stated.

The liabilities consisted of Net Loss Reserves, as reported by the Company and as determined by this examination, totaled \$ 26,304,420. Net Loss Adjustment Expense Reserves, as reported by the Company and as determined by this examination, totaled \$ 10,800,599.

NOTE 3: AMOUNTS WITHHELD OR RETAINED BY OTHERS

The Exchange reported an amount of \$492,546 as Amounts Withheld or Retained by Others as of December 31, 2008.

It is again recommended that the Exchange issue a check made payable to the order of the New Jersey Department of Banking and Insurance in the amount of \$168,673.37 and submit a check to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

NOTE 6: SURPLUS AS REGARDS POLICYHOLDERS

A summary of the Surplus as Regards Policyholders as a result of this examination is summarized below:

Policyholders Surplus Contributions	\$ 46,375,367
Surplus Notes	2,418,898
Unassigned Funds	<u>(30,890,564)</u>
 Total Surplus as Regards Policyholders	 \$ 17,903,701

The Surplus as Regards Policyholders as determined by this examination amounted to \$ 17,903,701 which is above the minimum needed surplus level of \$ 2,300,000 as required by statutes to write policies without contingent liability.

Policyholders Surplus Contributions

The Exchange reported Policyholders Surplus Contributions in the amount of \$ 46,375,367 at December 31, 2008. This amount is part of the Power of Attorney agreement that each subscriber agrees to pay as part of his or her premiums as a subscriber to NJCURE. The power of attorney agreement states:

“Each subscriber of the Exchange agrees to pay, in addition to premiums, an amount equal to 10% of the subscriber’s total premium for the first four years of membership, and an amount as required by the Exchange, of up to 10% of the total annual premium for each year thereafter as a surplus contribution, for the benefit and protection of all subscribers.”

Surplus Notes

At December 31, 2008 the Exchange reported a balance of \$2,418,898 for Surplus Notes, which has been accepted for examination purposes. In 1990 the Exchange secured a Surplus Note for \$750,000. Subsequently, the Exchange has secured six additional notes between 1990 and 1997 which now total the present carrying value of \$ 2,418,898.

Unassigned Funds

The Exchange reported an amount for unassigned funds at December 31, 2005 of (\$30,890,564). Accordingly, the balance reported by the Exchange for unassigned funds will be accepted by this examination as stated.

SUBSEQUENT EVENTS

Subsequent to the examination date, the CFO at 12/31/08 resigned on 1/12/09 and was replaced by a new CFO on 1/13/09. The new CFO was subsequently terminated on 4/13/09 and replaced by a third CFO on 6/22/09. The General Counsel was also terminated on 3/30/09.

Also worthy of note, the Claims Manager was terminated on December 16, 2008.

SUMMARY OF RECOMMENDATIONS

Accounts and Records (Page 15)

Upon review, it was determined that the Exchange has initiated some informal steps required by a formal Business Continuity/ Disaster Recovery Plan. Progress towards this end has included the purchase of additional hardware the availability of offsite emergency work space, the existing usage of offsite storage for daily data files and the current usage of an offsite emergency claim center. While the Exchange has made strides in both these plans, it is again recommended that the Exchange continue to make progress in the finalization of these plans.

Amounts Withheld or Retained by Company for Account of Others (Page 20)

It is again recommended that the Exchange issue a check made payable to the order of the New Jersey Department of Banking and Insurance and transmit the payment to the State of New Jersey Escheatable Fund Division for residual market equalization charges (RMEC) and policy constants.

STATEMENT OF NEW JERSEY DEPARTMENT OF BANKING AND INSURANCE
PROPERTY AND CASUALTY ACTUARY

Citizens United Reciprocal Exchange

I, Boris Privman, Managing Property and Casualty Actuary for the New Jersey Department of Banking and Insurance, performed an actuarial analyses of the 12/31/2008 reported loss and loss adjustment expense reserves for the aforementioned insurer.

Actuarial results and findings contained within this examination report are the sole responsibility of Actuarial Unit of Office of Solvency Regulation, New Jersey Department of Banking and Insurance.

_____/S/_____
Boris Privman, FCAS, MAAA
Managing Actuary

CONCLUSION

A regulatory statutory examination was conducted by the undersigned with the assistance of fellow examiners of the New Jersey Department of Banking and Insurance examination staff.

Respectfully Submitted,

/S/

**William F. Kirgan Jr. CFE
Supervising Insurance Examiner**

CITIZENS UNITED RECIPROCAL EXCHANGE

I, William F. Kirgan, Jr. do solemnly swear that the foregoing report of examination hereby represented to be a full and true statement of the condition and affairs of the subject insurer as of December 31, 2008 to the best of my information, knowledge and belief.

Respectfully Submitted,

/S/

**William F. Kirgan, Jr. CFE
Supervising Insurance Examiner
New Jersey Department of Banking and Insurance**

**State of New Jersey
County of Mercer**

Subscribed and sworn to before me, Thomas B. Walker on this 26th day of May, 2010.

/S/

**Notary Public of New Jersey
Thomas B. Walker
My commission expires: September 29th, 2013**